Guideline

Title	Large Exposure Limits - 1994
Category	Prudential Limits and Restrictions
Date	December 31, 1994
Sector	Banks Foreign Bank Branches Trust and Loan Companies

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Consultation status: Open

A draft version of this guideline is available for consultation. Please provide your feedback by August 19, 2026 to Consultations@osfi-bsif.gc.ca.

This guideline addresses the issue of large credit risk exposures of banks, authorized foreign banks in respect of their business in Canada – foreign bank branches (FBBs), and federal trust and loan companies and sets out OSFI's policy with respect to limits on these exposures. In this guideline, the term "company" means banks and all federally regulated trust and loan companies. It applies individually to each company on a consolidated basis and to FBBs.

OSFI is concerned about concentrations of credit risk exposure to a person or a group of associated persons because if these loans cannot be recovered, the financial condition of the lender could be seriously affected.

Large exposures are subject to limits, notwithstanding the quality of security that underlies individual transactions. It is extremely difficult to establish, in all cases, with certainty and over time, the availability and value of security that underlies an exposure until the need to call upon it arises.

Please refer to OSFI's Corporate Governance Guideline for OSFI's expectations of company Boards of Directors in regards to operational, business, risk and crisis management policies.

Limits on Large Exposures

All companies and authorized foreign banks are to set out in writing their internal policies on large exposures, including exposures to individual customers, financial institutions, and countries. These policies are also a requirement of the Prudent Person Approach, guideline B-1. Companies are also to have in place the management information and control systems necessary to give effect to their written policies on large exposures.

In addition, the following limits apply:

Banks, Authorized Foreign Banks, and Trust and Loan Companies

- The aggregate exposure of a consolidated company or authorized foreign bank to any entity or a connection shall not exceed 25 per cent of total capital. Notwithstanding this limit, it is expected that companies and authorized foreign banks will establish lower internal limits and that the 25 per cent regulatory limit will be employed only on an exceptional basis. Total capital, as used in this and subsequent paragraphs, means the total capital of the company as defined in this guideline. In addition, OSFI expects that an authorized foreign bank will comply, at all times and on a consolidated basis, with the large exposure limits established by the regulator in its home jurisdiction.

Subsidiaries in Canada

- A Canadian resident company that is the subsidiary of a parent bank, or a subsidiary of a regulated parent trust or loan company may have an exposure to any entity or connection that is no greater than 100 per cent of the total capital of the subsidiary. Notwithstanding this limit, it is expected subsidiary companies will establish lower internal limits and that the 100 per cent regulatory limit will be employed only on an exceptional basis.
- These subsidiaries must notify the Superintendent of any exposure to one entity or connection that exceeds 50 per cent of their total capital no later than 10 working days after the exposure has been incurred. Exposures that increase to an amount greater than 50 per cent of capital because of changes in exchange rates need not be reported upon that occurrence, but will be reviewed as part of the examination process.
- The 100 per cent of the total capital limit is contingent upon the following criteria being met:
    - the parent company is made aware of and has sanctioned exposures greater than 50 per cent of the total capital of the bank subsidiary or trust or loan company subsidiary;
    - the parent and the subsidiary are adequately supervised consistent with the minimum standards for supervision published by the Basel Committee on Banking Supervision in June 1992;

- the parent company is, in the opinion of the Superintendent, a continuing source of financial strength for the subsidiary; and
- there are no legal, regulatory, statutory or fiscal restrictions in the parent's home jurisdiction to obtaining capital from the parent in the event of losses.

Failure to meet all of the above conditions will result in the Superintendent reducing the limit to not lower than 25 per cent of the total capital of the company subsidiary.

Parent Guarantees

A company may not use a guarantee from its parent or an affiliate to reduce an exposure to an amount within the limits prescribed in this guideline.

Definitions

Total Capital

For the purposes of this guideline, total capital is the consolidated total capital of a company as defined for the purpose of calculating its risk-based capital adequacy ratio. In the case of FBBs, total capital is the BIS capital of the authorized foreign bank as defined by (reported to) the home country regulator.

Exposure

An exposure includes claims on an entity or connection comprising:

- any draw-downs on arrangements for providing funds or credit including loans and advances, debt and equity securities, loan substitute securities, and financial leases;
  - all undrawn amounts of irrevocable advised credit commitments including, but not limited to:
    - standby letters of credit;
    - financial guarantees;

        - conditional sales contracts;
        - repurchase agreements;
        - fully underwritten lending commitments;
        - note issuance facilities; and
        - revolving underwriting facilities;
    - the credit equivalent amount of foreign exchange, interest rate, equity and commodity contracts calculated in accordance with the OSFI capital adequacy guideline, recognizing the net amount where transactions are subject to a legally valid contractual right of set-off.

An exposure excludes:

- any deposits with, and debt obligations (including acceptances) of, banks, FBBs, trust and loan companies and cooperative credit associations that have a residual maturity of less than one year;
- any deposits with a federally regulated Canadian parent bank, trust company or loan company;
- foreign exchange, interest rate, equity and commodity contracts with banks, FBBs, trust and loan companies and cooperative credit associations with a residual maturity of less than one year;
- all foreign exchange, interest rate, equity and commodity contracts with the regulated parent, regulated affiliate bank, or regulated affiliate trust or loan company in the normal course of business;
- direct obligations of and that portion of obligations fully and unconditionally guaranteed by the Government of Canada, a Canadian province, OECD central governments, and bodies designated as public sector entities for capital adequacy ssessment purposes;
- exposures to an entity that occur while a transaction is in the course of settlement, including daylight overdrafts;
- exposures to an entity arising from purchases of Government of Canada securities, securities issued by a province of Canada or an OECD central government subject to an agreement that the seller will repurchase at

the end of a stated period, provided that the purchasing bank, FBB, trust or loan company has obtained control of the securities that are to be repurchased;

- loans of securities made in accordance with OSFI guidelines on securities lending and loans made to securities brokers and dealers that are fully collateralized by securities issued by the Government of Canada or by a province of Canada; and
- commitments pursuant to an underwriting agreement to purchase a new issue of securities or a secondary issue of securities by a subsidiary that is a member of the Investment Dealers Association of Canada or regulated by a provincial securities commission and subject to the capital requirements for such underwriting agreements.

Exclusions from the definition of exposure must continue to be monitored by the company or FBB and be subjected to internal credit exposure limits defined by the company's or authorized foreign bank's management.[1] In addition, any market risks associated with these exposures should also be incorporated into the company's over-all market risk measurement and control framework.

Control of Securities

Control of securities may be effected by a company or an FBB through the following methods:

- acquiring possession of physical securities by direct delivery to the purchasing bank, trust or loan company of the certificates representing the securities;
- delivery of either physical securities or book-entry securities to a third-party custodian designated by the purchasing company under a written custodial agreement that explicitly recognizes the purchasing company's interest in the securities as superior to that of any other person;
- appropriate entry on the books of a third-party custodian acting pursuant to a tripartite agreement with the purchasing company and the seller, thereby ensuring adequate segregation and identification of either physical or book-entry securities; or

- a substantially equivalent method.

Entity

An entity is a natural person, a body corporate, trust, partnership, fund, unincorporated association or organization, an agency of the Crown in right of Canada or of a province, and any agency of a foreign government.

Connection

A connection exists where two or more entities are a common risk. The exposures to the entities comprising a connection shall be aggregated for the purpose of applying limits on a company's large exposures.

Common Risk

Common risk is to be determined on a case-by-case basis, with reference to the material facts of the situation. The presence of either of the following conditions indicates a common risk:

- the expected source of repayment is the same for each entity; or
- the entities are part of a corporate group and there is material financial interdependence between the entities.

Expected Source of Repayment

The obligations of a partnership or joint venture and the obligations of each member of a partnership or joint venture shall be deemed to have the same source of repayment and will be aggregated as follows:

- the exposure to each member of a general partnership shall include the obligations of the general partnership; and
- the exposure to each member of a limited partnership or joint venture shall include their pro rata share of the obligations of the limited partnership or joint venture.

Corporate Group

Corporate group is defined to include an entity and all of its subsidiaries, whether they are owned directly or indirectly.

Financial Interdependence

Financial interdependence is to be assessed by companies or FBBs on a case-by-case basis taking into consideration intercompany funds movement and contractual agreements, including common security arrangements, guarantees and letters of comfort. An example of intercompany funds movements that indicate financial interdependence would be the reliance arising from a company in a corporate group obtaining more than 50 per cent of its gross receipts for the most recent 12 month period from another company in the corporate group.

1 In the case of an FBB, the role of management shall be discharged by branch management.